CORPORATE SOCIAL RESPONSIBILITY (CSR) DISCLOSURE AND FINANCIAL PERFORMANCE OF LISTED MANUFACTURING FIRMS IN NIGERIA: A HOLISTIC APPROACH

OKERE, Wisdom; UDEKA, Philip; RUFAI Oluwatobi

Department of Economics, Accounting and Finance, Bells University of Technology, Sango-Ota, Ogun State.

Abstract: The study examined the relationship between Environmental accounting information disclosure and Financial Performance of Listed Manufacturing Firms in Nigeria. The study uses secondary data extracted from the annual reports of the listed manufacturing companies for the period of 2009-2018. The study used a holistic checklist which was prepared by determining certain CSR activities which include Donations, Employee Benefits, Staff Training Costs and Research and Development Costs. Panel ordinary least square regression was used to estimate the model in order to achieve the research objective. The study found that environmental accounting information disclosure has a negative impact on financial performance of manufacturing firms in Nigeria. In line with the findings of the study, it is recommended that CSR practice should continue to be done by entities as voluntary for profit driven manufacturing firms so it would not have a negative impact on their financial performance.

Keywords: Environmental Accounting, Corporate Social Responsibility, Performance, Profitability, Environment Cost.

1.0 Introduction

Corporate social responsibility disclosure is an essential concept that is progressively being deliberated and adopted internationally. Scholars and experts have been striving to set up a definite idea of corporate social responsibility for more than 30 years and what should be disclosed in line with expectations of stakeholders. Early research by scholars deliberated on whether CSR should be in existence or not (Shimshack & Kitzmueller, 2010).

Following the poor performance of the manufacturing sector in 2016, analysts and researchers are looking beyond the poor statistics to map out the way forward for this sector this is caused by series of challenges such as scarcity of foreign exchange, high interest rate and poor governance strategies by the management of manufacturing firms. Consequently, this has led to the shutdown of about 272 firms reduced capacity utilization, reduced production and cut down in workers remuneration (CBN Statistics, 2017). The economic recession experienced in 2016 as well as other inherent factors affecting the Nigerian economy has greatly limited the financial performance of the manufacturing firms. This creates a need to examine factors that influences the financial performance of manufacturing forms in Nigeria.

Mcguire and Schneeveis (1988) set that firms invest in reputation through their active involvement in CSR. Numerous corporations such as banks and manufacturing firms in Nigeria are driven by the need to make profit and that is the sole point of each business. Ponnu and Okoth (2009) provided evidence which proved that firms engaging in CSR seek to improve their corporate image or status which can enable them improve their profits and revenue. Carroll and Shabana (2011) posited that CSR should be adopted so as, to obtain a reputable capital and maintain legitimacy and a good name within the society. Manufacturing firms in Nigeria are relied upon to deal with the effects of their operations on by adopting corporate social responsibility.

Regardless of the immense consideration as of late given to environmental accounting information disclosure in Nigeria, an area of concern still remains firms in the manufacturing sector. Researchers were not able to determine why most manufacturing firms still do not fully adopt the corporate social responsibility strategy. Also, there has
been inconsistency in literature. Some researchers have found a positive relationship (Ondieki, 2013; Wambui, 2013) between financial performance and CSR while some have found negative relationship (Shehu, 2015; Querol – Areola, 2017) while Mutuku (2004) found no relationship between them.

Consequently, after review of literature, it is noticed that most researchers have not embarked on a holistic approach to CSR, especially in Nigeria. A holistic approach captures a series of CSR activities as one and examines how it impacts the financial performance of listed manufacturing firms in Nigeria. This has brought the need to do more research adopting a holistic approach to assess the relationship existing between Environmental accounting information disclosure and financial performance of listed manufacturing firms in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Concept of Corporate Social Responsibility

Corporate Social Responsibility can be defined as a sort of corporate activity that is adopted by corporations into their business models. It refers to enterprises practicing initiatives that benefits society or improves the standard of living of the general public. Hopkins (2004) defined CSR as “handling the interested parties of the business in a way deemed acceptable in a civilized society with an aim of improving quality of life and at the same time preserves profitability of the corporation”. Buchholz (1991) interpreted CSR as “technique a company attains a balance among its commercial, communal and ecological duties in its processes to enable it attain the expectations of both the shareholders and other stakeholders”. A more extensive explanation was given from Pour (2010) who posited that corporations should not only be responsible for making maximum profit, but should also protect and not harm the environment, as well as, contribute to the well-being of societies.

2.1.2 Concept of CSR Disclosure

CSR disclosure has been identified as a valuable legitimization tool employed to convince societal members that the organization is making necessary efforts to achieve (socially) benign performance and fulfil societal expectations. Environmental Disclosure involves problems such identification, depth, allocation and incorporation of environmental cost into the business as well as the method of passing across the information to stakeholders. (Environmental Accounting Guidelines, 2002). The major objective of environmental disclosure is for organisation to achieve corporate governance that promotes transparency in the society. Environmental disclosure of corporate organisations has been an important area of academic interest and has hastened an extensive literature since the 1970s. An extensive body of literature from a wide range of theoretical background resolved that environmental disclosures are an important occurrence employed by corporate organisations (Gray, Javad, Power & Sinclair, 2001) and they are impacted by different explanatory factors.

Environmental disclosure reporting was introduced in the early 1990s and since then it has rapidly gained acceptance as the means of communicating and demonstrating a company’s commitment to improving corporate environmental performance to its stakeholders (ACCA, 2004). Environmental disclosure is a means of communicating to the stakeholders about the impact of the organization's actions on the environment. This indicates that bigger-sized companies and the environmentally certified companies by an external agency disclose more environmental information. It's a public disclosure of information regarding an organisation’s environmental performance (Chartered Institute of Management Accountants, 2012).

Corporate environmental disclosure spreads the responsibility of companies beyond the traditional role of providing financial disclosure assuming that companies have wider environmental responsibilities (Gray et al., 1987). The standard of directing and challenging companies to set up procedure and the acknowledgement of the significance of the changing utilization needs and overseeing of natural assets of a nation are contained in the environmental reporting guideline (Beredugo & Mefor, 2012). Data provided by environmental reporting are important for probity and accountability and non-disclosure may have an adverse effect on the economic decision of the users.
Uwuigbe and Jimoh (2012) explained that majority of the corporate organisation in Nigeria mainly disclose information that is relating to consumers, products, the involvement of the community in which they operate and employees but disclose very little about quantifiable data. Environmental disclosures constitute part of what frequently are labelled social responsibility disclosures. Social responsibility disclosures can include, among other things, disclosures relating to the interaction between an organization and its physical and social environment (Deegan & Rankin, 1996). Social and environmental disclosure “can typically be thought of as comprising information relating to a corporation's activities, aspirations and public image with regard to environmental, community, employee and consumer issues. (Gray, et al., 2001).

2.2 Theoretical Review

This study adopts the stakeholder theory to examine the relationship between environmental accounting disclosure and Financial Performance of listed manufacturing firms in Nigeria. The stakeholder concept was first used in 1963 internal memorandum at the Stanford Research Institute. They defined stakeholders as "those groups without whose support the organization would cease to exist." The theory was later developed and championed by Freeman in the 1980s. Since then it has gained wide acceptance in business practice and in theorizing related to strategic management, corporate governance, business purpose and corporate social responsibility (CSR). Hawke (2009) pointed out that stakeholder theory is true if and only if stockholder theory is true and the only way that a business manager can maximally serve the interests of shareholders is by serving the interests of all stakeholders.

Corporations are motivated to become more socially responsible because their important stakeholders expect them to understand and address the social and community issues that are relevant to them. Understanding what causes are important to employees is usually the first priority because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty, improved recruitment, increased retention, higher productivity, and so on). This theory argues that there are other parties involved including the governmental bodies”, political group, trade unions, trade associations, ” communities and the public at large apart from the other four parties.

The stakeholder theory of the firm (Freeman, 1984) emphasizes on the effective management of relationship between the business organization and the various social groups that influence and are influenced by (i.e., the stakeholders). This theory challenges the mere maximization of benefits for the shareholders and embodies the necessity of a balancing act among the array of all stakeholder claims. When the stakeholder approach utilized as a managerial tool aims to identify which social constituents are the most important and as a result should receive a greater proportion of management attention (Goodpaster, 1991; Frooman, 1999). From the stakeholder viewpoint CSR reporting is identified as an instrument of fruitful engagement and ongoing dialogue between the firm and its stakeholders and potentially successful medium for negotiating such relationships (Roberts, 1992).

2.3 Empirical Review of Literature

<table>
<thead>
<tr>
<th>Author</th>
<th>Title</th>
<th>Country</th>
<th>Methodology</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karagiorgos,</td>
<td>CSR and firms’ financial performance in Greek firms</td>
<td>Greece</td>
<td>Stakeholders theory</td>
<td>findings show that there is a positive correlation among stock returns and CSR performance in Greek companies</td>
</tr>
<tr>
<td>(2010)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ofori, Nyyur, S-Darko, (2014)</td>
<td>impact of corporate social responsibility on financial performance in Ghana banking sector</td>
<td>Ghana</td>
<td>questionnaire</td>
<td>The findings revealed that banks in Ghana view corporate social responsibility practices to be a strategic tool</td>
</tr>
</tbody>
</table>

Nigeria unweighted scoring approach the study concludes that CSRD level has impact on the profitability


Nigeria secondary data Positive impact


Philippines Panel data Negative impact


Sweden Longitudinal study, Secondary analysis Positive impact


Kenya Panel data It can be concluded that ethical CSR indeed has a relation to performance of firms listed at the NSE

2.3.1 research hypothesis

H0: Corporate social responsibility has no significant relationship with financial performance of listed manufacturing firms in Nigeria.

H1: Corporate social responsibility has no significant relationship with financial performance of listed manufacturing firms in Nigeria.

3.0 Methodology

The population of the study constituted 64 publicly quoted companies at the NSE from year. The manufacturing sector was chosen because it remains the most powerful engine for economic structure of countries (Jide, 2010). the sample size for this study is 10 listed manufacturing firms in Nigeria. Simple random sampling will be applied to determine the observations in the sample. In addition, in line with Uwuigbe (2011), it is generally accepted to use 10% of the population as sample size in research studies, because, having a sample size of 10% of the whole population has been fact fully recommended to be sufficient to embark on a research.

The statistical tool used for analyzing the data collected for the purpose of this study is the descriptive statistics and panel ordinary least square regression. The panel data methodology is based on combined time-series and cross-sectional data. correlation analysis was carried out to see the association level between the independent and dependent variable on E-views and also to test for multicollinearity between variables. To understand the distribution of the data, the descriptive analysis will be used which involves the use of tables to present and interpret relevant data computed from the annual financial report of the selected listed manufacturing companies in Nigeria. To determine what model to apply for the regression, The Hausman test was carried out to determine
which model is appropriate for the panel regression. The Hausman test rule is as follows:

<table>
<thead>
<tr>
<th>P-value</th>
<th>Statistical Significance</th>
<th>Hypothesis Acceptance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistical significance</td>
<td>Accept the alternative hypothesis (Fixed Effect Model)</td>
<td></td>
</tr>
<tr>
<td>Not statistically significant</td>
<td>Accept the null hypothesis (Fixed Effect Model/Random Effect Model)</td>
<td></td>
</tr>
</tbody>
</table>

In order to test the hypothesis regarding the relationship between environmental accounting disclosure and financial performance of manufacturing companies listed on the Nigerian Stock Exchange, this study employed an econometric model. The Econometric model is therefore seen below as:

\[
\text{ROA}_t = \beta_0 + \beta_1 \text{CSRD}_t + \beta_2 \text{FSIZE}_t + \beta_3 \text{LEV}_t + \mu_t \quad \text{eq (1)}
\]

Where ROA = Returns on assets
CSR = Corporate social responsibility Disclosure
FSIZE = firm size
LEV = leverage
\(\mu_t\) is the error term capturing other explanatory variables not explicitly captured in the model.
\(\beta_0\) is the intercept of the regression.
\(\beta_1, \beta_2, \beta_3\) are the coefficients of the regression

**Measurement of Variables**

The variables that will be used for this study are:

**Dependent variable: Financial Performance**

Return on assets (ROA): Net Profit after tax Divided by total asset \(\times 100\)
Independent Variable: Corporate Social Responsibility Disclosure
This is measured by a holistic checklist created by the author.

The checklist is based on a content analysis of the annual reports of the sampled manufacturing firms seeking out for environmental accounting disclosures and limited to donations, staff training cost, employee benefits and research and development.

**Control Variables**

Firm Size (FSIZE): this is measured using the natural logarithm of total assets.
Leverage (LEV): this is measured using debt divided by total assets.

**4.0 Data Presentation and Analysis**

**4.1 Descriptive Analysis**

**TABLE 1.0: SUMMARY STATISTICS OF DATA SERIES**

<table>
<thead>
<tr>
<th>Statistics</th>
<th>ROA</th>
<th>CSRD</th>
<th>FSIZE</th>
<th>LEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.090886</td>
<td>63.75000</td>
<td>10.67000</td>
<td>0.169742</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.372250</td>
<td>100.0000</td>
<td>11.58969</td>
<td>0.677188</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.446187</td>
<td>25.00000</td>
<td>9.639569</td>
<td>0.027530</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.107879</td>
<td>23.67045</td>
<td>0.473131</td>
<td>0.121688</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.899349</td>
<td>-0.000900</td>
<td>-0.214998</td>
<td>1.663458</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>8.187104</td>
<td>2.093973</td>
<td>2.635474</td>
<td>6.947789</td>
</tr>
<tr>
<td>Observations</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author's Computation (2021)

From the results obtained, it is observed that during periods of 2009-2018, ROA of manufacturing firms investigated averaged 0.09; with highest and lowest ROA of 0.37 and -0.44. Standard deviation value (0.1078) is
low, and it indicates ROA indicator of manufacturing firms in Nigeria were low. Kurtosis value (8.187) is higher than 3.0 to suggest that there were outlier ROA values. This indicates that while there were manufacturing firms with high ROA values, majority of them had low ROA values.

CSR ratio averaged 63.75, but had lowest and highest values of 25 and 100 respectively. Standard deviation value (23.67) is high, and it suggests that CSR engagement was low among the firms investigated. Kurtosis value (2.09) is lower than 3.0. This indicates there is no presence of outlier values.

It is found from table 4.1 that firm size of the manufacturing firms averaged 10.67. Highest and lowest values of 11.589 and 9.639 are obtained. Standard deviation value is 0.437, which is low, and indicates the firms experienced growth during the years. Kurtosis statistic (2.635) is lower than 3.0, which indicates that the firms investigated all experienced regular growth.

Firm leverage averaged 0.169, with lowest and highest values of 0.027 and 0.677. Standard deviation value (0.1216) obtained is high. Kurtosis value (6.947) is higher than 3.0, and indicates that few of the firms engaged in high external debts.

4.1.1 Correlation Analysis

**TABLE 2.0: CORRELATION ANALYSIS**

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>CSR</th>
<th>FSIZE</th>
<th>LEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1</td>
<td>0.153521</td>
<td>0.011851</td>
<td>-0.00705</td>
</tr>
<tr>
<td>CSR</td>
<td>0.153521</td>
<td>1</td>
<td>0.133059</td>
<td>0.217013</td>
</tr>
<tr>
<td>FSIZE</td>
<td>0.011851</td>
<td>0.133059</td>
<td>1</td>
<td>0.052841</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.00705</td>
<td>0.217013</td>
<td>0.052841</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Authors Computation (2021)

Table 4.2 reveals the relationships between ROA, CSR, FSIZE, and LEV variables of manufacturing firms investigated, between 2009 and 2018. It is also used for examining presence of multicollinearity among the data series. It is found that ROA has a positive relationship (0.1535) with CSR, positive relationship (0.011) with firm size, and negative relationship (-0.007) with firm leverage. These suggest that rising ROA values of the firms was positively related with their firm size and CSR engagement. However, increase in ROA was associated with low leverage. It is also found that CSR has a positive relationship (0.1330) with FSIZE, and a positive (0.217) relationship with firm leverage. This indicates that when Environmental accounting information disclosure of the manufacturing firms increased, it was positively related with rising FSIZE and leverage. FSIZE correlates positively (0.052) with firm leverage. Lastly, firm size has a positive relationship (0.0528) with firm leverage. From the results obtained, none of the data series had coefficient up to 0.8. This indicates there was absence of multi collinearity among the data series for the study.

4.1.2 Hausman Test

**TABLE 3.0: HAUSMAN TEST RESULTS**

| Correlated Random Effects - Hausman Test | Equ: Untitled |
| Test cross-section random effects | Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| Cross-section random | 9.597939 | 3 | 0.0223 |

Source: Author's Computation (2021)

The test result above shows the Hausman test, which is a judge on whether random panel or fixed panel regression should be estimated. The p-value is 0.0223, which is not statistically significant. Hence, the study cannot reject the null hypothesis which states that the fixed panel regression should be estimated.
4.2 Presentation and Interpretation of Results

**TABLE 4: OLS REGRESSION RESULTS (DEPENDENT VARIABLE: ROA)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>-0.000389</td>
<td>0.000260</td>
<td>-1.498010</td>
<td>0.1378</td>
</tr>
<tr>
<td>FSIZE</td>
<td>-0.150091</td>
<td>0.025088</td>
<td>-5.982556</td>
<td>0.0000</td>
</tr>
<tr>
<td>LEV</td>
<td>0.032228</td>
<td>0.037710</td>
<td>0.854621</td>
<td>0.3951</td>
</tr>
<tr>
<td>C</td>
<td>1.711714</td>
<td>0.267985</td>
<td>6.387344</td>
<td>0.0000</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.674926</td>
<td>Mean dependent var</td>
<td>0.198890</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.630088</td>
<td>S.D. dependent var</td>
<td>0.174802</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.098031</td>
<td>Akaike info criterion</td>
<td>-2.876839</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>156.8420</td>
<td>Schwarz criterion</td>
<td>-2.538167</td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>15.05262</td>
<td>Hannan-Quinn criter.</td>
<td>-2.739773</td>
<td></td>
</tr>
<tr>
<td>Prob (F-statistics)</td>
<td>0.000000</td>
<td>Durbin-Watson stat</td>
<td>1.313859</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors Computation (2021)

4.3 Interpretation and Analysis of Regression Results

The results in table above reveal the impact of Environmental accounting information disclosure, firm size and leverage on returns on assets of 10 listed manufacturing firms in Nigeria, using panel least square regression technique. The results reveal that the probability of the F-Statistic is 0.000000, which suggests that the model is significant and has high goodness fit. The results also show an R-Squared of 0.674926 (68%) while the adjusted R-Squared is 0.630088 (63%). These indicate that 63% of the total variation in the dependent variable (returns on assets) is explained by the independent variables (CSRD, firm size and leverage). Durbin Watson value of 1.313859 reveals that the problems of serial autocorrelation are limited.

The coefficient for CSRD is -0.000389, which has a P-value of 0.1378 that is not significant at 5% level. This implies that CSRD has a negative insignificant effect on ROA of listed manufacturing firms in Nigeria. The coefficient of firm size is -0.150091, and has a P-value of 0.0000 that is significant at 5% level. This suggests that firm size has a negative significant impact on ROA of listed manufacturing firms in Nigeria. Lastly, leverage has a coefficient of 0.032228, and has a P-value of 0.1395. This indicates that leverage has a positive insignificant impact on ROA of listed manufacturing firms in Nigeria.

4.4 Research Findings and Implications

Findings from this study found that Environmental accounting information disclosure impacts negatively on returns on assets of listed manufacturing firms in Nigeria. This suggests that Environmental accounting information disclosure engagement has not been properly conducted among the manufacturing firms investigated. This result is consistent with Duke and Kankpang (2013); Mohammed, Zakaree and Oladele (2016), who found that proper engagement of CSR engagement improves corporate performance. Similarly, Akinleye and Adedayo (2017) found that poor corporate social spending exerted negative insignificant impact on corporate performance in Nigeria. Also, it is found that firm size impacts negatively on performance of listed manufacturing firms in Nigeria. Findings from Ilaboya and Iyafekhe (2014) agree that firm size contributes negatively to corporate performance. Lastly, it was observed that leverage impacted positively on performance of manufacturing firms in Nigeria.

5.0 Summary, Conclusion and Recommendations

The study conducted an empirical investigation on the relationship between Environmental accounting information disclosure and financial performance of listed manufacturing firms in Nigeria. The study developed a multiple regression model; which captured the impact of Environmental accounting information disclosure, firm size, and firm leverage on returns on assets of listed manufacturing firms in Nigeria. The study covered ten listed manufacturing firms from 2009-2018. Panel regression was employed for analysis. Findings from this study found
that Environmental accounting information disclosure impacts negatively on returns on assets of listed manufacturing firms in Nigeria. This suggests that Environmental accounting information disclosure has not been poorly conducted among the manufacturing firms investigated. This result is consistent with Abu-Abdissamad and Oba (2013); Duke and Kankpang (2013); Mohammed, Zakaree and Oladele (2016), who found that proper engagement of CSR engagement improves corporate performance. Similarly, Akinleye and Adedayo (2017) found that poor corporate social spending exerted negative insignificant impact on corporate performance in Nigeria.

Also, it is found that firm size impacts negatively on performance of listed manufacturing firms in Nigeria. Findings from Ilaboya and Iyafekhe (2014) agree that firm size contributes positively to corporate performance. Lastly, it was observed that leverage impacted positively on performance of manufacturing firms in Nigeria. This result agrees with Nwude, Itiri, Agbadua and Udeh (2016); and Olokoyo (2013) who found that external debt aids firm performance. From the foregoing, it is observed that Environmental accounting information disclosure impacts negatively on financial performance of listed manufacturing firms in Nigeria. This result shows that there is poor commitment among manufacturing firms in Nigeria towards CSR. To this end, this study concludes that corporations in Nigeria that are socially responsible to themselves (via research and development investments), benefit from their financial performance. Thus, firms that do not fully engage in these listed CSR activities, deny themselves from such important gains. Hence, firms should reinvent their performance.

The following recommendations are reached:

I. Directors and managers of listed manufacturing firms should focus on other CSR programs other than employee benefits, staff training cost, donations and research and development programs for other CSR activities that would not have a negative impact on their profitability.

II. CSR not to be viewed as a compulsory practice but a voluntary practice for profit driven manufacturing firms so it would not have a negative impact on their financial performance.

III. Corporations should review other CSR activities that would not have a negative impact on their financial performance; other CSR activities they can undergo include; recycling, insurance.

REFERENCES